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Committee for Development Policy

Report on the seventh session (14-18 March 2005)

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Summary

The present report contains the main findings and recommendations of the seventh session of the Committee for Development Policy, held at United Nations Headquarters from 14 to 18 March 2005. The Committee addressed three themes: the first concerned achieving the internationally agreed development goals, including those contained in the Millennium Declaration, as well as implementing the outcomes of the major United Nations conferences and summits: progress made, challenges and opportunities (the theme of the high-level segment of the Economic and Social Council in 2005); the second concerned reconstruction, development and sustainable peace in post-conflict countries; and the third, in preparation for the 2006 triennial review, concerned improvements in the criteria for the identification of the least developed countries.

With regard to the first theme, the Committee is of the view that recent changes in both developing and developed countries hold the promise that, given the right direction and effort, the Millennium Development Goals are indeed achievable. Because sub-Saharan Africa is where success may be the most elusive, the Committee has focused on recommendations aimed at achieving the Goals in that region. In the view of the Committee, such success depends, to a large extent, on whether responsible and accountable leadership is in place. Success in achieving the Goals depends heavily on the ownership, planning and executing of the necessary policies and programmes by the countries themselves. The capacity of Governments to implement development policies and programmes also has to be strengthened, but this requires the assistance of the international community. The Committee emphasizes that the developed countries must support the developing countries and calls upon donor countries to provide high quality aid in sufficient quantity.

Concerning the second theme, the Committee considers that links between poverty and conflict are highly complex and multi-dimensional. Many conflicts erupt in poor countries with low levels of human capital. With regard to post-conflict reconstruction, the Committee stresses that special attention must be paid to the reintegration into society of people involved in violence. To that end, mass media should be legally prohibited from promoting mistrust and hatred. The Committee also proposes that a monitoring unit be established within the United Nations to identify those countries most at risk of conflict and that a United Nations post-conflict reconstruction facility be created to serve as a prompt response instrument for donor coordination.

With regard to the least developed countries, the Committee notes that in its resolution 59/209, the General Assembly requested the Committee to continue monitoring the development progress of graduated countries as a complement to its triennial review of the list of least developed countries and to report its findings to the Economic and Social Council. The Committee suggests that it be informed by the Secretary-General on the implementation of the transition strategy of graduating countries and the effective benefits received by those countries during the transition period. The Committee further recommends that, in the case of Maldives, the consultative mechanism envisaged in General Assembly resolution 59/209 be organized with due consideration for the exceptional circumstances of reconstruction in the aftermath of the tsunami of 26 December 2004. The Committee also considered the general principles for the identification of the least developed countries and proposed further refinements to the criteria for measuring income levels, the stock of human assets and economic vulnerability.

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Chapter I

Matters calling for action by the Economic and Social Council or brought to its attention

A. Matters calling for action by the Council

Recommendation 1: Developments pertaining to graduated countries

1. The Committee recommends that the Economic and Social Council endorse its request that it be informed by the Secretary-General on the implementation of the transition strategy of graduating countries, the effective benefits received by these countries during the transition period and their overall development.

Recommendation 2: The critical need for a consultative mechanism after the tsunami

2. The Committee recommends to the Economic and Social Council that, in the case of Maldives, the consultative mechanism envisaged by General Assembly resolution 59/209 be organized with consideration for the exceptional circumstances of reconstruction in the aftermath of the tsunami of 26 December 2004.

Recommendation 3: Improving the criteria for identifying the least developed countries

3. The Committee formulated a number of recommendations concerning general principles for the criteria for identifying the least developed countries as well as improvements to the criteria for the triennial review of the list in 2006. In this regard, the Committee invites the Economic and Social Council to take note of the recommendations contained in chapter IV of the present report.

B. Matters brought to the attention of the Council

1. Theme of the Council's 2005 high-level segment

4. In reaching its conclusions on the theme of its 2005 high-level segment, the Economic and Social Council may wish to take into account the analysis and recommendations of the Committee contained in chapter II of the present report.

2. Reconstruction, development and sustainable peace in post-conflict countries

5. The Economic and Social Council may wish to reflect on the Committee's analysis and recommendations on the subject of reconstruction, development and sustainable peace in post-conflict countries, as contained in chapter III of the present report.

3. Future work of the Committee

6. The Committee expressed its concern about the extent and effectiveness of the special benefits granted to the least developed countries by development partners. The Committee suggested that it should examine how these benefits help to accelerate the development process.

7. For its session in 2006, the Committee proposed consideration of the theme "Coping with economic vulnerability and instability: national and international policy responses". The Committee envisages focusing on issues such as: (a) economic instability and vulnerability; (b) national and international policy responses; and (c) environmental factors as a major determinant of sustainable long-term development.

Chapter II

An African perspective on the Millennium Development Goals: from scepticism to leadership and hope

1. The Millennium Development Goals (MDGs) are an unprecedented agreement among world leaders to monitor progress towards reducing poverty through quantitative, time-bound targets that are to be achieved by 2015, with levels in 1990 serving as a benchmark. They include 8 goals, 18 targets and 48 indicators, which are aimed at: eradicating extreme poverty and hunger; achieving universal primary education; promoting gender equality and empowering women; reducing child mortality; improving maternal health; combating HIV/AIDS, malaria and other diseases; ensuring environmental sustainability; and developing a global partnership for development. While MDGs are within reach in a number of regions, in many least developed countries, particularly in sub-Saharan Africa, the Goals are unlikely to be met unless the current pace of development is accelerated.

2. For countries in sub-Saharan Africa, the Committee notes the importance of: (a) responsible and accountable leadership and good governance; (b) strengthening the capacity of Governments to plan and implement policies and programmes; and (c) national development strategies that incorporate MDGs.

3. Developed countries share a responsibility to support developing countries in this endeavour: without their sustained and motivated support, many countries in sub-Saharan Africa will not achieve the Goals. The Committee thus calls upon donor countries to provide high quality aid in sufficient quantity to sustain the effort.

A. Trends in sub-Saharan Africa in the 1990s

4. In the 1990s, owing to insufficient economic growth and "shocks" such as the HIV/AIDS pandemic and civil wars, sub-Saharan Africa was the only region in the world in which poverty increased. Average income per capita for the region declined by 0.6 per cent per year and many development indicators deteriorated: the number of people living in poverty increased by a quarter; health conditions worsened, especially with the spread of HIV/AIDS, malaria and tuberculosis; and the average life expectancy at birth fell to 46 years in 1999, down from 50 years in 1990.

5. The widening income disparity that occurred in the region during that decade weakened the link between growth and poverty reduction. Civil wars and other conflicts, in particular those in Angola, the Central African Republic, the Democratic Republic of the Congo, Ethiopia, Eritrea, Liberia, Sierra Leone and Somalia, took a heavy toll in terms of life, property, economic infrastructure and the investment climate. Human and financial capital fled these countries, further limiting potential opportunities for longer-term growth.

6. Poor governance contributed to the worsening of the performance and prospects of countries in sub-Saharan Africa. Progress was slow, not only for the global poverty reduction target, but also for the MDGs pertaining to: secondary-school enrolment; infant mortality; maternal mortality; malaria; and access to drinking water and sanitation. Half of the population of Africa lives in extreme poverty, and one third in hunger. One-sixth of children die before the age of five, the

same as a decade ago. Primary enrolment levels are still at only 57 per cent.[1] The health situation has also worsened with the spread of HIV/AIDS, malaria, tuberculosis and other diseases. For its part, the international community reduced its assistance during that difficult decade. Official development assistance (ODA) to Africa fell from $22 billion in 1995 to $15.3 billion in 1999, while tariffs and agricultural subsidies in developed countries, sub-Saharan Africa's main trading partners, continued to impair sub-Saharan Africa's exports to those countries.

B. Obstacles, challenges and opportunities

1. Obstacles

7. When the MDGs were first adopted, many countries in sub-Saharan Africa were highly sceptical and did not readily incorporate them in their national development plans. Indeed, the poverty reduction strategies contained in poverty reduction strategy papers that were formulated with the International Monetary Fund (IMF) and the World Bank prior to the adoption of the MDGs were not necessarily consistent with the Goals. The costs and funding associated with the papers were not in line with the achievement of the MDGs and the targets for the papers were set in a short- to medium-term framework, rather than in the longer time frame of the MDGs.

8. Moreover, the public sector in sub-Saharan African countries has weakened during the past two decades. The share of government revenue in the gross domestic product (GDP) has fallen, the civil service has shrunk in size and real wages in the public sector have declined. Thus, the capacity of the public sector to plan and execute development policies and programmes and to manage the national economy remain limited. Some Governments have become undemocratic and their accountability to the public has eroded. In short, the state of the public sector has not been propitious for long-term planning, managing the public sector and achieving the MDGs in many countries in sub-Saharan Africa.

2. Challenges and opportunities

9. The MDGs constitute an ambitious challenge, not only for sub-Saharan Africa, but also for the international community as a whole. Yet recent developments raise the hope that achieving the MDGs in sub-Saharan Africa remains possible.

10. For Africa as a whole, GDP growth of about 7 per cent per annum would be required to achieve the MDG goal of poverty reduction.[2] Sustaining this growth would require an investment rate of about 30 per cent of GDP, double the current rate. Huge financial resources would be needed to attain such investment levels.

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[1] *Human Development Report 2003: Millennium Development Goals: A compact among nations to end human poverty*, United Nations Development Programme (UNDP).

[2] See Economic Commission for Africa, "Economic Report on Africa 1999 — The Challenge of Poverty Reduction and Sustainability". In 2004, almost half the countries in Africa (accounting for 40 per cent of the region's population) increased per capita output by more than 3 per cent. These cases demonstrate that it is possible to achieve rates of growth in Africa that, if sustained, will slowly reduce poverty in the region. See *World Economic Situation and Prospects*, United Nations, 2005.

11. Much of the funding would need to come from within these countries. To this end, African countries will need to substantially improve both public and private resource mobilization, including fiscal revenue, financial intermediaries and microfinance institutions. Likewise, they must enact legislation enabling the enforcement of contracts and the timely and fair settlement of disputes, as these are essential elements to attract both domestic and foreign direct investment (FDI).

12. At the same time, both the Millennium Project report and the Commission for Africa concur that, in order to accelerate income growth and spur strong progress towards the MDGs, the volume and quality of external aid to sub-Saharan Africa must increase radically.[3] There are encouraging signs that, since the International Conference on Financing for Development, ODA flows have increased and their distribution improved, insofar as aid is being directed more to poorer countries.[4] However, these commendable improvements fall short of what is required to help attain the MDGs.[5]

C. Recommendations

13. The MDGs represent a compact that defines the responsibilities of the developing world and the donor community to combat poverty within a specified time frame. The real power of the MDGs is political, insofar as they represent the first global commitment with a clear focus on poverty reduction.

14. While achieving them must be an imperative, the peoples of Africa deserve more than the attainment of the MDGs. They also aspire to decent jobs, more tools with which to raise the yield of their crops, better infrastructure with which to diversify away from agriculture and into manufacturing and services and other forms of enterprise that will improve their lives. They do not want merely to be centres for extractive industries, they aspire rather to attract a better type of FDI, that is, FDI which brings technology, provides jobs and increases the value added of economic activity. They understand that national and regional investments in electricity, roads, telephones and irrigation are crucial to break the vicious cycle of poverty and eventually reach a stage where growth is sufficiently high and sustainable and does not require large amounts of external assistance. Ultimately, they hope that the global commitment to poverty reduction that launched the MDGs will enable them to attain this higher development path.

15. The attainment of the MDGs should be a shared responsibility between sub-Saharan Africa and its development partners. African countries must take ownership and leadership in the implementation of the MDGs and take steps to enhance their capacity to absorb aid effectively, including through better macroeconomic management, governance and accountability. For its part, the donor community must

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[3] Report of the United Nations Millennium Project, *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals*, United Nations Development Programme, 2005, New York; and the report of the Commission for Africa, *Our common interest*, 2005.

[4] In 2003, least developed countries received 33 per cent of total ODA, as compared to 29 per cent in 1990.

[5] Both the Millennium Project report and the Commission for Africa report suggest that ODA to sub-Saharan Africa should be doubled, that is to $25 billion per annum over the next three to five years, and that a further $25 billion should be provided following a review of progress.

raise the volume and quality of aid. Regional cooperation also has a role to play in terms of shared understandings and best practices.

1. Enhancing the quantity and quality of aid

16. To accelerate growth and hasten progress towards achievement of the MDGs, the volume of aid to sub-Saharan Africa must increase dramatically. The projected increase in aid to the region, to $50 billion in 2010 and $75 billion in 2015, if achieved, would be a major step in the right direction.

17. To be effective, increases in aid volume must be accompanied by improvements in aid quality. Aid should be provided mostly in grants and be untied, more predictable, better harmonized and coordinated among donors and better integrated into the national development framework and budgetary process of recipient countries. Aid conditionality should be mutually agreed upon and fully consistent with the recipient's development strategy.

18. Aid should be delivered in ways that strengthen the existing administrative machinery, rather than through parallel channels that circumvent and undermine existing institutional arrangements. Likewise, steps need to be taken to reduce transactions costs and avoid overtaxation of weak administrative capabilities with unduly sophisticated and demanding programme designs.

2. Enhancing the absorptive capacity for aid

19. Countries in the region need well-functioning public sectors. A capable State plays a critical role for setting the vision, coordinating policies and creating a space for wealth creation by the private sector. Strengthening budgetary processes and public monitoring of the government budget are central to achieving the MDGs.

20. Steps need to be taken to expand the capacity to absorb aid by removing bottlenecks in the productive sectors, in particular in agriculture, and enabling unused resources to be utilized effectively. Public activities that have a "crowding-in" effect on investment by the private sector and local communities should also be encouraged. In this context, investment in infrastructure, training, education and governance should be a high priority. Channelling aid towards institutional strengthening and capacity-building to buttress strategic planning and policymaking is a priority area.

21. Strengthening the human capital base is crucial. Even before the HIV/AIDS pandemic, countries in sub-Saharan Africa had been losing vast quantities of human capital, in part as a result of armed conflicts. It is imperative to reverse this trend through the institutionalization of peaceful conflict resolution mechanisms. It is also crucial to stem the brain drain prompted by low wages. Ways need to be found to attract skilled migrants back to sub-Saharan Africa, especially to universities and training institutions, in order to regenerate and upgrade the work force.

3. Monitoring mechanism

22. As recommended in the report of the Millennium Project, *Investing in Development*,[3] monitoring is important in the implementation of the MDGs. Incorporating a monitoring and evaluation process would enable stakeholders to exercise their rights and responsibilities in participation. To that end, the monitoring process in sub-Saharan Africa should be strengthened by: (a) providing timely

statistics on MDG indicators; (b) bolstering the statistical capacity of these countries; and (c) enhancing the analytical underpinning of the monitoring framework.

23. Although the responsibility for meeting the MDGs lies with the individual countries, it is imperative to introduce the regional perspective in exchanging best practices and providing a foundation for common understanding and collective action by African stakeholders, Governments and civil society.

24. The African Peer Review Mechanism, designed as a self-monitoring mechanism to foster the adoption of policies, standards and practices conducive to political stability, high economic growth, sustainable development and accelerated regional and continental economic integration, is a useful venue for sharing experiences and best practices for the attainment of the MDGs.

Chapter III
Reconstruction, development and sustainable peace in post-conflict countries

A. Violent conflict: a threat to human security and an obstacle to development

1. In spite of the widespread hope that the end of the cold war would herald a new era of widely shared improvements in economic welfare, prosperity and peace through greater harmony of interests and cooperation within and between countries, over 100 armed conflicts have taken place since 1989.

2. While most of these conflicts have been internal rather than international in nature, internal conflicts frequently lead to regional contagion, as populations are displaced, disputes spread across borders and economic activity is disrupted throughout a region. Furthermore, civil and international wars are not the only forms of organized violence. A number of countries have experienced inter-communal violence, genocide, coups and high levels of organized crime by armed gangs.

3. Deep poverty, colonial legacies and other factors may have contributed to the eruption of conflicts. Often, countries have become profoundly poorer as a result of these conflicts, their economic activities severely stunted by persistent insecurity. Conflicts, thus, have a major negative long-term impact on development in some parts of the world.

4. As jobs disappear and insecurity mounts, skilled workers often leave the country. In the countryside, the loss of male labour increases the economic burden on women and children. The young cease to attend school and learn instead that the only way to increase their wealth is through violence and theft. Smuggling and illegitimate activities, such as drug production and trafficking, thrive at the expense of productive enterprise. As a result, tax collection collapses, making it virtually impossible for the Government to provide essential services. Despite the high social and material costs of armed conflicts, some groups, local and foreign, stand to benefit and see their interests threatened by the termination of conflicts. For these and other reasons, many internal conflicts have endured for decades and some have resumed even after an initial cessation of hostilities.

B. Poverty, inequality and conflict

5. Poverty creates an environment in which violence and conflict can thrive. With high unemployment and under-employment, low job and income security and little hope of improvement, the poor in many countries lack confidence or a stake in peaceful development. In poor countries that are highly susceptible to external shocks, the resulting economic and social disruptions often exacerbate or give rise to distributional conflicts. Indeed, conflicts can and do arise not only over a sudden loss in income, but also over the inequitable distribution of windfall gains.

6. Although conflict invariably results in impoverishment for the majority, the links between poverty and conflict are highly complex and multidimensional. Even though evidence suggests that poverty appears to increase the incidence of violence, not every poor country experiences conflict. The link between poverty and conflict

seems to be particularly strong in poor countries with low levels of human capital. Over the past 15 years, conflicts have occurred in half of the least developed countries, and half of the States in the bottom quartile of the United Nations Development Programme (UNDP) human development index have experienced conflict.

C. Factors triggering internal conflicts in poor countries

7. Steady equitable economic growth, the benefits of which improve human security and the well-being of all groups of society, will encourage productive investment and give rise to a virtuous cycle of peaceful development. Conflicts erupt when political and/or economic actors, internal or external, resort to violence to achieve their goals, often using poverty and inequality as arguments for their struggle.

8. An open society, with thriving representational bodies, is better able to absorb shocks and ensure that the gains and losses are equitably distributed among all social groups. The media can also play a negative role in triggering a conflict by, for instance, spreading misinformation or fomenting inter-group hatred. Outside interests, including commercial concerns, can also provoke and finance violence within a country. Diasporas may also foment and finance conflicts in their countries of origin. The proliferation of arms, especially small arms, has greatly facilitated the use of force in the resolution of political conflicts. In addition, conflicts can often be triggered when the benefits of natural resources are not distributed in a transparent and equitable manner. The wealth that natural resources create can also be used to finance the cost of the conflict to preserve control over them.

9. Conflicts of interest among individuals and social groups occur in every society; in most cases, they are resolved peacefully through political processes and institutions. Armed conflict can be prevented through the efforts of domestic institutions to enforce reconciliation as well as the determination of the international community to encourage non-violent methods of dispute resolution.

D. Recommendations

1. Measures to prevent future conflicts

10. Measures that the international community should develop to limit conflict and enhance the links between conflict prevention and development, as outlined in the proposals for the Peacebuilding Commission, are discussed below.

Arms control

11. Building on the Programme of Action to Prevent, Combat and Eradicate the Illicit Trade in Small Arms and Light Weapons,[6] and taking advantage of technological advances in tracking devices, an international standard for the trade and distribution of small arms and light weapons should be developed. All countries should be called upon to adhere to the standard and cooperate closely in enforcing

[6] See *Report of the United Nations Conference on the Illicit Trade in Small Arms and Light Weapons in All Its Aspects, New York, 9-20 July 2001* (A/CONF.192/15), chap. IV.

it. As in the case of environmental and financial issues, enforcement cannot be ensured by one country alone.

Timely intervention

12. The international community has strived to develop the concept of human security and corresponding strategies to ensure such security. Whereas international institutions are reluctant to get involved in internal disputes, there is growing recognition that such interventions may be appropriate in certain cases. To be effective and credible, collective international intervention must be well informed, timely and on a scale commensurate to the task. The timing of the intervention is critical: recent experience has shown that when intervention is delayed or avoided, civil disorder can spill over into neighbouring countries, leading to international conflicts that may become very costly in terms of loss of lives and forgone development. A set of indicators to enable the international community to evaluate vulnerability to conflict and to provide early warning on emerging difficulties should be developed with urgency.

Security, social reintegration and reconciliation

13. Post-conflict reconstruction requires that special attention be paid to the reintegration into society and retraining of those, especially the young, involved in violence and military activities. Enabling militants to settle into civilian life requires not only training in productive and marketable skills, but also social rehabilitation. The media has an important role in promoting reconciliation, trust and democratic participation in the process of reconstruction, rather than inciting ethnic, religious or gender-based conflicts, mistrust and hatred. There should be legal provisions prohibiting the media from doing the latter.

Education for peace

14. The education system needs to convey the values of peace and cooperation, as well as to provide the skills needed for peaceful conflict management. With the help of international organizations, including UNDP and the United Nations University, special programmes may be tailored to the needs of specific groups, including the training of civil servants, community leaders, the media and security forces. Such programmes would include learning to value the benefits of cooperation; committing civil society to building a strategy for peace; valuing peace as an integral part of human development; and building the foundation of peace as a necessary condition for social advancement.

Institutions

15. Consolidating peace will depend on national institutions that can bring about the peaceful resolution of internal differences and make all actors feel that they have a stake in such a settlement. Such institutions include not only an inclusive political regime but also a legal and economic system that is consistent with social and distributive justice. Defence budgeting needs to be transparent and accountable to civilian authorities. Once peace is consolidated, countries should be able to make drastic reductions in military expenditure to fund the reconstruction process. Resources would also be needed to develop law-enforcement institutions, which should not be dominated by any interest group.

Physical and mental health

16. In post-conflict countries, many people, especially children and women, who suffered from the preceding violence, need psychological help to cope with the effects of trauma. Wars are also associated with greater vulnerability to ill health due to diminished immunity, disabilities and the spread of diseases. The destruction of health delivery systems has lasting effects, increasing mortality and morbidity long after the conflict has ceased. Health services and facilities must be improved rapidly to provide much-needed rehabilitation. The international community should support local authorities and non-governmental organizations in restoring and expanding such services.

Economic recovery

17. Economic recovery is essential in order to maintain the peace on a sustained basis. Recovery should provide the resources to rebuild the local market, secure basic social services and facilitate income-generating activities. In particular, recovery assistance should initiate food production as soon as possible, in order to relieve dependence on food aid. Among other things, this requires agricultural inputs, a rebuilt infrastructure and a safe environment, free of mines, toxic residues and war debris.

2. Post-conflict reconstruction

18. In view of the many domestic and external factors that can trigger and sustain conflicts, a conflict monitoring unit should be established within the United Nations for developing and administering a set of early warning indicators to identify countries at risk of conflict.

19. Since conflicts have regional repercussions, the assistance of the international community in post-conflict reconstruction should promote regional cooperation, giving all countries a stake in the progress of their neighbours. Moreover, many post-conflict countries are themselves so small that their infrastructure needs are more effectively met in a regional context. The Committee noted that the reconstruction aid extended by the United States of America to Europe after the Second World War was conditional on its being channelled through a regional body and based upon a reconstruction plan agreed to by all participating countries.

20. International assistance will be critical for post-conflict reconstruction. The United Nations and its agencies are uniquely suited to assume a leadership role in coordinating such a recovery via a United Nations post-conflict reconstruction facility, as a response instrument for donor coordination. The facility could be funded partly with additional debt forgiveness in the form of a debt-for-peace swap. The existence of the facility would improve the delivery and effectiveness of aid through the creation of a standardized, transparent system for reporting, tracking and monitoring pledges, commitments and disbursements to countries under reconstruction. Three principles must guide its work: (a) consistency between goals and policies; (b) consistency between different policies; and (c) the boundary between the private and the public sector, which is to be established on pragmatic and not dogmatic grounds. The facility could coordinate its activities with regional organizations such as, in the case of African countries, the African Union.

21. Post-conflict reconstruction cannot be successful and sustained without the engagement of the private sector. The creation of national post-conflict private sector development funds geared to critical investments would be a confidence-building instrument for resource mobilization in post-conflict countries. The international community could support such initiatives by extending investment guarantees from the Multilateral Investment Guarantee Agency or similar institutions.

22. Preserving the peace will depend on post-conflict countries developing a long-term strategy for sustainable development in partnership with neighbours and other international partners and institutions. With the assistance of donors, this strategy should focus, among other things, on the recovery of sustainable domestic sources of financing. In cases in which the conflict arose out of problems connected with the distribution of wealth and income from natural resources, such development strategies will need to include high standards of transparency for producer countries and companies purchasing such resources.

Chapter IV
Improving criteria for identifying the least developed countries

1. Since 1971, the United Nations has used the term least developed countries to denote a category of countries with low levels of income and facing severe structural obstacles in their development process. The two main structural obstacles considered for the identification of least developed countries since 2000 are high economic vulnerability and a low level of human capital.

2. The Committee for Development Planning, the precursor of the Committee for Development Policy, was mandated in 1971 to make recommendations to the Economic and Social Council on countries to be added to the list of least developed countries. Since 1991, the Committee has made recommendations on both inclusion and graduation at its triennial review of the list of least developed countries. The criteria used for the identification of least developed countries that was first established in 1971 were improved in 1991, 2000 and 2003.

3. By designating the list of least developed countries, the goal of the United Nations is to inform development partners of the need to grant special benefits to these countries. These benefits vary among donors and relate mostly to trade preferences and ODA. At its seventh session, the Committee expressed its concern about the limited extent and effectiveness of this special treatment and decided to consider this matter in its future work.

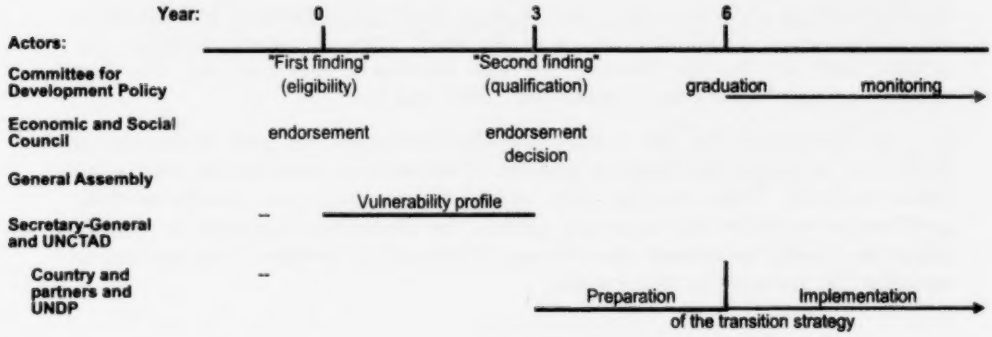
A. The future work of the Committee for Development Policy in light of recent Economic and Social Council and General Assembly resolutions

4. In examining General Assembly resolution 59/209 on the smooth transition strategy for countries graduating from the list of least developed countries, the Committee noted that it had two important elements with regard to the graduation process: (a) graduation will take effect three years after the decision of the General Assembly to take note of the recommendation of the Committee to graduate a country (which means six years after a country is first found eligible for graduation); and (b) during the three-year period prior to graduation, a transition strategy should be prepared to facilitate a smooth transition from least developed country status. The Committee also took note of the mandate contained in paragraph 3 (b) of the above resolution, by which the United Nations Conference on Trade and Development (UNCTAD) is invited, after a country has met the criteria for graduation for the first time, to prepare a vulnerability profile, to be taken into account by the Committee at its subsequent triennial review (see figure 1 below).

5. The Committee noted the importance of paragraph 12 of General Assembly resolution 59/209, in which the Assembly requests the Committee, with the assistance and support of other relevant entities, to continue monitoring the development progress of graduated countries as a complement to its triennial review of the list of least developed countries, and to report its findings to the Economic and Social Council.

6. The Committee noted the importance of a transition strategy, not least to avoid abrupt reductions in either ODA or technical assistance in anticipation of eventual phasing out of other advantages granted to least developed countries. It also noted the importance of actions to be taken by the graduating country through the proactive use of the consultative mechanism with its bilateral and multilateral development partners to that end, in the spirit of General Assembly resolution 59/209. Lastly, it was noted that although the preparation of the transition strategy should be a country-driven process, it could involve the operational agencies of the United Nations, other international entities and bilateral donors.

Figure 1.
Graduation time frame



7. The Committee expressed the view that, when a least developed country graduating from the list is affected by a natural disaster, the international community should be mobilized to facilitate and support the reconstruction efforts in the framework of the transition strategy. In that context, the situation in the Maldives required special attention: not only are substantial additional resources needed, but they should be a determining factor in the formulation of a smooth transition strategy.

B. General principles of the criteria for the identification of the least developed countries

8. The Committee identifies least developed countries by taking into consideration three dimensions of a country's state of development: income level, human assets and economic vulnerability. More specifically, the Committee considers: (a) gross national income (GNI) per capita; (b) the human assets index (HAI); and (c) the economic vulnerability index (EVI).

9. Four general principles underlying further refinements to the criteria for least developed country status were considered: (a) the objective of identifying low-income countries suffering from the most severe structural handicaps; (b) the consistency of the list over time; (c) the stability of the criteria; and (d) the need for flexibility in the application of the criteria.

10. Countries are least developed countries if they face structural impediments to growth, because of their low income level, the high vulnerability of their economies and their low level of human capital. These characteristics that define least developed countries correspond to the present state of knowledge related to the development process.

11. The Committee reiterated the same concerns expressed in its 2000 and 2001 reports that a fair application of the criteria should imply equal treatment of countries in similar situations over time. It was noted that, of the 50 least developed countries, 11 would not be eligible based on the 2003 inclusion criteria and that nine low-income countries not included in the list would not be eligible for graduation had they been on the list. This is largely the result of asymmetries in the inclusion/graduation criteria. First, to be added to the list, three criteria need to be met, whereas to be graduated, a country must cease to meet not only one but two of the three criteria. Secondly, there is a difference in the threshold levels used for inclusion and graduation.

12. The Committee took the view that the criteria need to be modified over time to be consistent with the general principles that ought to underlie the identification of least developed countries. At the same time, the Committee reiterated the importance of maintaining stability in the criteria.

13. The Committee stressed the importance of flexibility in the application of the three criteria for the identification of least developed countries. The Committee suggested considering simultaneously the two structural handicap criteria (HAI and EVI), or even all three criteria, in order to take into account some degree of substitutability among the criteria and the possible combined impact of the handicaps, as captured by the HAI and EVI, as proposed by the Committee in its report on its fourth session.[7] Flexibility may serve to enhance the consistency of the list and to ensure equal treatment of countries over time, as considered in paragraph 11 above.

14. The Committee agreed that, if a country's GNI increased to a sufficiently high level (at least twice the threshold level), the Committee would consider the country eligible for graduation even if it does not satisfy the graduation threshold for either of the two other criteria. It was stressed that the sustainability of GNI growth must, however, be taken into consideration.

15. It was suggested that the Committee may use any other information to assess the eligibility of countries to be included or graduated from the category of least developed countries. As to the technical treatment of the indicators, such as the issues referred to in paragraph 21 below, and more comprehensively in the report of the Committee on its fourth session,[7] the Committee agreed that it could be a matter of progressive refinement.

[7] *Official Records of the Economic and Social Council, 2002, Supplement No. 13* (E/2002/33), para. 146.

C. Criteria for the identification of the least developed countries

1. Gross national income per capita

16. The Committee recalled its earlier discussions comparing GNI based on the World Bank Atlas method with purchasing power parity (PPP) estimates and noted that, although a PPP measurement of GNI would better reflect a country's standards of living, such data do not exist for many countries. Furthermore, PPP estimates are often constructed without being based on direct statistical observations. It was, therefore, decided to use GNI based on the World Bank Atlas method.

17. In preparation for the 2006 triennial review, the Committee also recapitulated the arguments that had brought it, in 2002, to choose GNI instead of GDP. The Committee agreed to keep GNI per capita and emphasized the limitations in collecting data for some countries for which there were large discrepancies among various sources. It requested the Secretariat to report on the reliability or absence of the necessary data. It was suggested that, particularly in graduation cases, all the reliable measurements of income should be considered.

2. Human Assets Index

18. The Committee agreed that human capital status should continue to be reflected in the HAI by indicators related to the level of both health and education. Four indicators are presently used, two indicators for health and nutrition and two for education: (a) the average calorie intake per capita as a percentage of the minimum requirement; (b) the mortality rate for children aged five years or under; (c) the gross secondary school enrolment ratio; and (d) the adult literacy rate.

19. It was noted that, from experience based on previous reviews, HAI indicators often need to be checked for reliability. The HAI indicators express a relative assessment in comparison with a larger sample of low-income countries, with a scale of measurement that varies between reviews. In order to allow meaningful comparisons over time, it was suggested that better methods of defining the scale could be considered in calculating the HAI.

20. The Committee discussed with the Food and Agriculture Organization of the United Nations (FAO) the possibility of replacing the average daily calorie consumption per capita by the percentage of population undernourished. In the light of the recent improvements in the quality and coverage of the data on the latter indicator, the Committee decided to use it in the review of 2006.

21. The Committee also recalled its 2004 recommendation that, given the importance of e-readiness for development, one should reflect on whether that factor should be taken into account in the next review of the list of least developed countries. The Committee expressed the view that, unlike the current components of the HAI, e-readiness did not refer to human capital as such, but to material factors likely to enhance human capital or to result from it. Limited data availability was also noted as a weakness of these indicators. Moreover, unlike the other structural handicap indicators, e-readiness may change at a rapid speed in developing countries. The Committee therefore decided not to include e-readiness as an additional indicator for the HAI, but suggested that e-readiness data be made available for the next triennial review as additional information for assessing the eligibility of countries for inclusion or graduation from the list.

3. Economic vulnerability index

22. The Committee recalled that it considers economic vulnerability to trade and natural shocks as a major structural obstacle to development, often exacerbated by its effects on public expenditure. The EVI is designed to reflect both the magnitude of exogenous shocks faced by a country and the extent to which that country is exposed to such shocks. The EVI components representing shocks are instability of exports of goods and services and the instability of agricultural production. The EVI components representing exposure to shocks are: (a) population size; (b) share of manufacturing and modern services in GDP; and (c) merchandise export concentration. The Committee, at its fifth session, also considered the percentage of the population displaced by natural disasters as an additional indicator of natural shocks.[8] The Committee welcomes the appreciation in the Mauritius Strategy for the Further Implementation of the Programme of Action for the Sustainable Development of Small Island Developing States[9] of the usefulness of its previous work on vulnerability.

23. The Committee confirmed the usefulness of an indicator of the proportion of the population displaced by natural disasters in addition to the instability of agricultural production. These two proxy indicators were found to be complementary, reflecting natural shocks in a comprehensive manner.

24. At its fifth and sixth sessions, the Committee had envisaged taking into account the remoteness of a country from its main markets in the economic vulnerability criteria. It decided to introduce an indicator of remoteness as a component of EVI to reflect the handicaps resulting from high transportation costs and isolation from world markets.

25. In consideration of the fact that, among modern services, tourism increases rather than diminishes the exposure to shocks, the Committee agreed that the EVI should be modified with the share of manufacturing and modern services in GDP being replaced by the share of agriculture, forestry and fisheries.

26. Lack of economic diversification is considered as an indicator of the exposure to shocks. It was recalled, as noted in previous Committee reports, that the export concentration coefficient covers merchandise trade only and not services. It also depends on the classification of trade and is particularly high for countries that export oil or other minerals; it therefore facilitates the inclusion or maintenance of these countries on the list. The Committee agreed, however, to retain the indicator as part of the index of exposure.

27. The Committee reiterated its position that small countries tend to be more vulnerable to external shocks than large ones because their economies, other things being equal, are more trade-dependent and their exports are more concentrated. It also expressed the view that small countries experience higher exposure to natural shocks. Furthermore, most small low-income countries are situated in regions that are prone to natural disasters. Thus, the size of population was considered by the

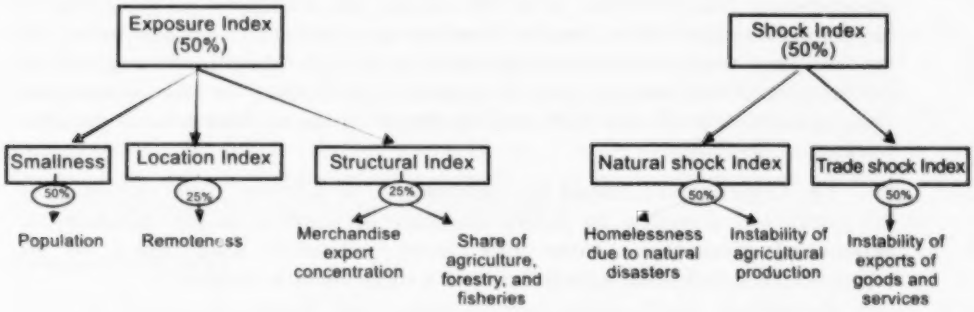
[8] Ibid., *2003, Supplement No. 13* (E/2003/33), chap. IV, para. 13.

[9] *Report of the International Meeting to Review the Implementation of the Programme of Action for the Sustainable Development of Small Island Developing States, Port Louis, Mauritius, 10-14 January 2005* (United Nations publication, Sales No. E.05.II.A.4), chap. I, resolution 1, annex II.

Committee as a major indicator for economic vulnerability, which needed to be reflected, with proper weight given to it in the measurement of EVI.

28. Consolidating the proposals presented in the preceding paragraphs, the Committee proposes that the EVI be refined as shown in figure 2.

Figure 2
Modified economic vulnerability index



D. Recommendations

29. The Committee agrees that flexibility should be exercised in the application of the three criteria for the identification of least developed countries. In the determination of whether certain countries should be eligible for inclusion or graduation, the Committee suggested considering simultaneously two structural handicaps (HAI and EVI), or even the three criteria (GNI per capita, HAI and EVI), in such a way as to take into account some degree of substitutability among the criteria and the possible combined impact of the handicaps as captured by the HAI and EVI.

30. The Committee agrees that, if the GNI of a least developed country increases to an exceptionally high level (at least twice the threshold level), the country can be considered eligible for graduation even if it does not reach the graduation threshold for either of the other two criteria, recognizing that the sustainability of the higher income level must be taken into account.

31. The Committee decides to replace the average daily calorie consumption per capita by the percentage of the population undernourished.

32. The Committee re-emphasizes that the size of population is a major indicator for economic vulnerability. The Committee agrees to include the proportion of the population displaced by natural disasters, together with the instability of the agricultural production, in the EVI. The Committee also agrees to include an indicator of remoteness in the EVI to reflect likely high transportation costs and isolation from world markets and to replace the share of manufacturing and modern services by the share of agriculture, forestry and fisheries.

Chapter V
Organization of the session

1. The seventh session of the Committee for Development Policy was held at United Nations Headquarters from 14 to 18 March 2005. Twenty-two members of the Committee, as well as observers for several organizations within the United Nations system, attended the session. The list of participants is contained in annex I.

2. The Department of Economic and Social Affairs of the United Nations Secretariat provided substantive services for the session. Mr. Ian Kinniburgh, Director of the Development Policy and Planning Office of the Department of Economic and Social Affairs, opened the session and welcomed the participants on behalf of the Under-Secretary-General for Economic and Social Affairs.

3. The officers elected at the sixth session for the term ending 31 December 2006 were:

Chairperson:
Ms. Suchitra Punyaratabandhu

Vice-Chairperson:
Mr. Milivoje Panić

Rapporteur:
Ms. Sylvia Saborio

4. The agenda for the seventh session and the list of documents before the Committee are contained in annexes II and III, respectively.

Annex I

List of participants

1. The following members of the Committee attended the session:

Ms. N'Dri Thérèse Assié-Lumumba

Ms. Iskra Beleva

Ms. Patricia Bifani-Richard

Mr. Albert Binger

Mr. Olav Bjerkholt

Ms. Gui-Ying Cao

Mr. Leonid M. Grigoriev

Mr. Patrick Guillaumont

Ms. Heba Handoussa

Mr. Hiroya Ichikawa

Ms. Willene Johnson

Ms. Marju Lauristin

Mr. Milivoje Panić

Ms. Carola Pessino

Ms. Suchitra Punyaratabandhu

Ms. Sylvia Saborio

Mr. Nasser Hassan Saidi

Mr. Udo Ernst Simonis

Ms. Funmi Togonu-Bickersteth

Mr. G. Usvatte-Aratchi

Mr. Samuel Mwita Wangwe

Mr. Kerfalla Yansane

2. The following organizations, bodies, agencies, programmes and funds of the United Nations system were represented at the session:

- Department of Economic and Social Affairs
- Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States
- Office of the Special Adviser on Africa
- Economic and Social Commission for Asia and the Pacific
- United Nations Children's Fund
- United Nations Conference on Trade and Development

- United Nations Development Programme
- United Nations Environment Programme
- United Nations Population Fund
- United Nations University
- World Food Programme
- Food and Agriculture Organization of the United Nations
- International Labour Organization
- United Nations Educational, Scientific and Cultural Organization
- United Nations Industrial Development Organization
- World Bank
- World Health Organization
- World Trade Organization

Annex II

Agenda

1. Adoption of the agenda and organization of work.
2. An African perspective on the Millennium Development Goals:
   (a) Trends in sub-Saharan Africa in the 1990s;
   (b) Obstacles, challenges and opportunities.
3. Reconstruction, development and sustainable peace in post-conflict countries:
   (a) Violent conflict: a threat to human security and an obstacle to development;
   (b) Poverty, inequality and conflict;
   (c) Factors triggering internal conflicts in poor countries.
4. Improving criteria for identifying the least developed countries:
   (a) The future work of the Committee for Development Policy in light of recent Economic and Social Council and General Assembly resolutions;
   (b) General principles of the criteria for the identification of the least developed countries;
   (c) Criteria for the identification of the least developed countries.
5. Other matters.
6. Suggestions for future work.
7. Discussion on and adoption of the report of the Committee for Development Policy on its seventh session.

Annex III

List of documents before the Committee at its seventh session

Document symbol	*Title or description*
CDP2005/PLEN/1	List of documents
CDP2005/PLEN/2	Agenda
CDP2005/PLEN/3	List of participants
CDP2005/PLEN/4	Smooth transition strategy for countries graduating from the list of least developed countries (General Assembly resolution 59/209)
CDP2005/PLEN/5	Report of the Committee for Development Policy on its sixth session (General Assembly resolution 59/210)
CDP2005/PLEN/6	Smooth transition strategy for countries graduating from the list of least developed countries (Economic and Social Council decision 2004/66)
CDP2005/PLEN/7	Report of the Committee for Development Policy on its sixth session (Economic and Social Council decision 2004/67)
CDP2005/PLEN/8	Mauritius Strategy for the further Implementation of the Programme of Action for the Sustainable Development of Small Island Developing States (A/CONF.207/CRP.7, paras. 63 and 64)
CDP2005/PLEN/9	Formulating a smooth transition strategy for countries graduating from least developed country status (report of the Secretary-General — E/2004/94)
CDP2005/PLEN/10	An African Perspective of the Millennium Development Goals: from scepticism to leadership and hope (available at: http://www.un.org/esa/analysis/devplan/index.html)
CDP2005/PLEN/11	Investing in development — A practical plan to achieve the millennium development goals — Overview (Millennium Project — report to the Secretary-General)
CDP2005/PLEN/12	Millennium Development Goals: Progress Report (compiled by Statistics Division, Department of Economic and Social Affairs)
CDP2005/PLEN/13	Millennium Development Goals (not by the Secretariat)
CDP2005/PLEN/14	Reconstruction, development and sustainable peace in post-conflict countries available at: (http://www.un.org/esa/analysis/devplan/index.html)
CDP2005/PLEN/15	Promises chatoyantes, piètre performance: aide et coopération dans les pays sortant d'un conflit
CDP2005/PLEN/16	Executive summary — A more secure world: our shared responsibility (report of the Secretary-General's High-level Panel on Threats, Challenges and Change)
CDP2005/PLEN/17	Expert Group meeting on conflict prevention, peacebuilding and development (issue paper by the Department of Economic and Social Affairs)
CDP2005/PLEN/18	Report of the Expert Group meeting on improving criteria for the identification of least developed countries

Document symbol	*Title or description*
CDP2005/PLEN/19	e-Readiness (note by the Secretariat)
CDP2005/PLEN/20	Purchasing power parity (PPP) (note by the Secretariat)
CDP2005/PLEN/21	Global Monitoring Report 2004, overview (World Bank/International Monetary Fund)
CDP2005/PLEN/22	General Assembly Summit Meeting, Economic and Social Council High-Level Segment and the Millennium Development Goals (note by the Secretariat)
CDP2005/PLEN/23	Economic security for a better world, Chapter 11 and Appendix B8 (International Labour Organization)

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